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UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

ABERE NEWETT, Individually and on  
Behalf of All Others Similarly Situated,

Plaintiff,

v.

LEAPFROG ENTERPRISES, INC., JOHN  
BARBOUR, and RAYMOND L.  
ARTHUR,

Defendants.

Case No.:

**CLASS ACTION COMPLAINT FOR  
VIOLATIONS OF THE FEDERAL  
SECURITIES LAWS**

**JURY TRIAL DEMANDED**

Plaintiff Abere Newett (“Plaintiff”), by and through his attorneys, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff’s information and belief is based upon, among other things, his counsel’s investigation, which includes without limitation: (a) review and analysis of regulatory filings made by LEAPFROG ENTERPRISES, INC. (“LeapFrog” or the “Company”), with the United States Securities and Exchange Commission (“SEC”); (b) review and analysis of press releases and media reports issued by and disseminated by LeapFrog; and (c) review of other publicly available information concerning LeapFrog.

### **NATURE OF THE ACTION AND OVERVIEW**

1. This is a class action on behalf of those who purchased or otherwise acquired LeapFrog’s securities between May 5, 2014 and January 22, 2015 inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

2. LeapFrog is a developer of educational entertainment for children. The Company’s product portfolio consists of multimedia learning platforms and related content, and learning toys. The Company has developed a number of learning platforms, including the LeapPad family of learning tablets, the Leapster family of handheld learning game systems, and the LeapReader reading and writing systems. The Company’s products are available in four languages and are sold globally through retailers, distributors and directly to consumers via the leapfrog.com online store and the LeapFrog App Center.

3. On January 22, 2015, after the market closed, LeapFrog announced preliminary financial results for its 2014 fiscal third quarter. These financial results were significantly below the Company’s stated expectations and financial guidance. According to the Company, LeapFrog’s disappointing sales results were related to decreased demand for its products and

development issues with the Company's LeapTV educational video game system.

4. On this news, shares of LeapFrog declined \$1.35 per share, 34.62%, to close on January 23, 2015, at \$2.55 per share, on unusually heavy volume.

5. Throughout the Class Period, Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose: (1) that the Company was experiencing a decline in consumer demand; (2) that the Company's new LeapTV video game system launch and shipment was delayed by developmental issues; (3) that retailers were overstocked with the Company's LeapPad products; (4) that, as a result, the Company lacked a reasonable basis for its financial guidance; and (5) that, as a result of the foregoing, the Company's statements were materially false and misleading at all relevant times.

6. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

#### **JURISDICTION AND VENUE**

7. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

8. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

9. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the

1 alleged fraud or the effects of the fraud have occurred in this Judicial District. Many of the acts  
 2 charged herein, including the preparation and dissemination of materially false and/or misleading  
 3 information, occurred in substantial part in this Judicial District. Additionally, LeapFrog's  
 4 principal executive offices are located within this Judicial District.

5 10. In connection with the acts, transactions, and conduct alleged herein, Defendants  
 6 directly and indirectly used the means and instrumentalities of interstate commerce, including the  
 7 United States mail, interstate telephone communications, and the facilities of a national securities  
 8 exchange.  
 9

### 10 **PARTIES**

11 11. Plaintiff Abere Newett, as set forth in the accompanying certification,  
 12 incorporated by reference herein, purchased or otherwise acquired LeapFrog's securities,  
 13 including call options during the Class Period, and suffered damages as a result of the federal  
 14 securities law violations and false and/or misleading statements and/or material omissions  
 15 alleged herein.  
 16

17 12. Defendant LeapFrog is a Delaware corporation with its principal executive offices  
 18 located at 6401 Hollis Street, Suite 100, Emeryville, California 94608.  
 19

20 13. Defendant John Barbour ("Barbour") was, at all relevant times, Chief Executive  
 21 Officer ("CEO") and a director of LeapFrog.

22 14. Defendant Raymond L. Arthur ("Arthur") was, at all relevant times, Chief  
 23 Financial Officer ("CFO") of LeapFrog.  
 24

25 15. Defendants Barbour and Arthur are collectively referred to hereinafter as the  
 26 "Individual Defendants." The Individual Defendants, because of their positions with the  
 27 Company, possessed the power and authority to control the contents of LeapFrog's reports to the  
 28

SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. Each defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and/or misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each "group-published" information, the result of the collective actions of the Individual Defendants.

## **SUBSTANTIVE ALLEGATIONS**

### **Background**

16. LeapFrog is a developer of educational entertainment for children. The Company's product portfolio consists of multimedia learning platforms and related content, and learning toys. The Company has developed a number of learning platforms, including the LeapPad family of learning tablets, the Leapster family of handheld learning game systems, and the LeapReader reading and writing systems. The Company's products are available in four languages and are sold globally through retailers, distributors and directly to consumers via the leapfrog.com online store and the LeapFrog App Center.

### **Materially False and Misleading Statements Issued During the Class Period**

17. The Class Period begins on May 5, 2014. On this day, LeapFrog issued a press release entitled, "LeapFrog Reports First Quarter 2014 Financial Results." Therein, the Company, in relevant part, stated:

**Announces New Products and Platforms for 2014**

LeapFrog Enterprises, Inc. (NYSE:LF) today announced financial results for the first quarter ended March 31, 2014.

“Our first quarter performance was about as we expected given the calendar shift of Easter into Quarter 2, higher levels of retail carryover inventory from Holiday 2013 across the key categories we play in and a continued challenging retail environment in our major markets,” said John Barbour, Chief Executive Officer. “With a tough start to the year and our major new product launches scheduled for the second half, we expect our sales to be significantly more back-end focused in 2014 than last year. Our line-up of major new product introductions will begin shipping in late summer and fall.

“LeapFrog has a great track record of identifying hot new categories and creating innovative, fun learning products for children that become best sellers.

“Just last week, we announced LeapBand™, the first wearable activity tracker created for children that encourages active play and healthy habits while they nurture their own personalized virtual pet. LeapBand will hit store shelves this summer and is a great example of our strategy to diversify our business by creating unique play experiences that help children achieve their potential through pure learning fun.

“We will further diversify our product portfolio with the fall launch of the exciting new LeapTV™ platform, an innovative kids’ active video game console system for younger children that gets their minds and bodies moving. We will support the launch with over 100 pieces of content by the end of the year.

“Additionally, we plan to extend our market leadership in children’s tablets with a number of innovative new LeapPads, including our first tablet that’s specifically designed to be merchandised in the consumer electronics section of stores, and lots more amazing children’s educational content.

“We are very excited about the response our new platforms and products have received from our retail partners and other industry experts, and we look forward to revealing more information about them later in the year.

“Also in 2014, we are making significant long-term, strategic investments in creating more new platforms and content, international expansion, online communities and information technology systems. We believe these investments will start to positively impact our bottom line in 2015 and will position us well for long-term growth and continued leadership in educational entertainment.”

## **Financial Overview for the First Quarter 2014 Compared to the First Quarter 2013**

First quarter 2014 net sales were \$56.9 million, down 31% compared to \$82.9 million last year, and were not materially impacted by changes in currency exchange rates. We faced an exceptionally tough sales comparison from last year's record first quarter sales performance, driven by high post-season demand for our LeapPads in Spring 2013 following an exceptional Holiday 2012 performance when our tablets held three of the top ten selling toy slots in the U.S. according to NPD1 and were virtually a total sell-out around the world. Net sales were also impacted by the calendar shift of Easter, retail inventory levels at the beginning of the year, which were higher than a year ago, and a continued tough retail environment. In the U.S. segment, net sales were \$39.1 million, down 33% compared to \$58.1 million last year. In the International segment, net sales were \$17.7 million, down 29% compared to \$24.8 million last year, and included a 1% negative impact from changes in currency exchange rates.

Loss from operations for the first quarter of 2014 was \$18.6 million, compared to \$4.6 million last year.

Net loss (GAAP) for the first quarter of 2014 was \$11.5 million, compared to \$3.0 million last year. Net loss per basic and diluted share (GAAP) was \$0.16, compared to \$0.04 last year.

Normalized net loss (non-GAAP) for the first quarter of 2014, which reflects an effective 37.5% tax rate and excludes actual tax benefits and tax expenses, was \$11.8 million, compared to \$3.1 million last year. Normalized net loss per basic and diluted share (non-GAAP) was \$0.17, compared to \$0.05 last year. We provide normalized net income (loss) measures, which are non-GAAP measures, to help investors review our performance and performance trends excluding discrete tax items which have historically been significant.

Adjusted EBITDA (non-GAAP) for the first quarter was a loss of \$10.4 million, compared to a gain of \$2.4 million last year.

### **Guidance**

"Our first quarter 2014 results slightly exceeded our guidance, and while we are maintaining our full year 2014 guidance that we previously provided, if current retail trends continue we see ourselves coming in at the lower side of our guidance range," said Ray Arthur, Chief Financial Officer. "We will continue to focus on executing our plans for the year as well as carefully monitoring consumer purchases given the tough economic climate.

"In addition, when considering second quarter guidance, note that most initial shipments of our major new product introductions were in the second and third

1       quarters of 2013 and comparable shipments will not occur until late in the third  
 2       quarter and fourth quarter of 2014. Additionally, we see high retail inventory  
 3       levels continuing to subdue sales to our retailer partners for at least the next three  
 4       to four months.

5       “From a full year perspective, we expect these factors to result in a significant  
 6       shift of our business to the back-end of the year.

7       “Throughout 2014, we will continue to invest in our business to broaden our  
 8       product portfolio, extend our reach internationally, better connect with consumers  
 9       and improve our business processes. Some of these investments are substantial,  
 10       such as our investments in new information technology systems and an improved  
 11       web experience. As a result, these investments, along with our starting retail  
 12       inventory position, will reduce our profitability in 2014. We believe these  
 13       investments will position us for growth in the years ahead and help us strengthen  
 14       our leadership in educational entertainment around the world, providing long-term  
 15       sales, earnings and cash flow growth.”

16       For the full year 2014, we expect:

- 17       • Net sales to be in a range of \$554 million to \$580 million compared to  
 18       \$554 million in 2013.
- 19       • Net income per diluted share (GAAP) and normalized net income per  
 20       diluted share (non-GAAP) to both be in the range of \$0.18 to \$0.25. For  
 21       the full-year 2013, net income per diluted share (GAAP) was \$1.19 and  
 22       normalized net income per diluted share (non-GAAP) was \$0.30.
- 23       • Capital expenditures to be in the range of \$35 million to \$45 million as we  
 24       make long-term, strategic investments in our business, particularly in our  
 25       information technology systems. Capital expenditures include purchases  
 26       of property and equipment and capitalization of product costs.

27       For the second quarter of 2014, we expect:

- 28       • Net sales to be in a range of \$48 million to \$52 million compared to \$83  
 million in the second quarter of 2013.
- Net loss per basic and diluted share (GAAP) and normalized net loss per  
 basic and diluted share (non-GAAP) to both be in the range of \$0.24 to  
 \$0.21. For the second quarter of 2013, net loss per basic and diluted share  
 (GAAP) was \$0.05 and normalized net loss per basic and diluted share  
 (non-GAAP) was \$0.04.

18.       On May 7, 2014, LeapFrog filed its Quarterly Report with the SEC on Form 10-Q  
 for the 2014 fiscal first quarter. The Company’s Form 10-Q was signed by Defendants Barbour  
 and Arthur, and reaffirmed the Company’s statements previously announced May 5, 2014.



19. The statements contained in ¶¶17-18 were materially false and/or misleading when made because defendants failed to disclose or indicate the following: (1) that the Company was experiencing a decline in consumer demand; (2) that the Company's new LeapTV video game system launch and shipment was delayed by developmental issues; (3) that retailers were overstocked with the Company's LeapPad products; (4) that, as a result, the Company lacked a reasonable basis for its financial guidance; and (5) that, as a result of the foregoing, the Company's statements were materially false and misleading at all relevant times.

20. On August 4, 2014, LeapFrog issued a press release entitled, "LeapFrog Reports First Quarter Fiscal Year 2015 Financial Results." Therein, the Company, in relevant part, stated:

**Financial Results Declined Year-Over-Year, Largely Due to Carry-Forward Retail Inventory from Last Holiday Season and the Timing of New Product Shipments Positioned for a Strong Holiday Season with New Product Introductions in New Entertainment Categories**

LeapFrog Enterprises, Inc. (NYSE:LF) today announced financial results for the first fiscal quarter ended June 30, 2014. In May, LeapFrog announced a fiscal year-end change from December 31 to March 31 in order to simplify business processes. As a result, the quarter ended June 30, 2014 is the first quarter of the new fiscal year ending March 31, 2015.

Highlights of financial results for the quarter ended June 30, 2014 compared to the quarter ended June 30, 2013:

- Consolidated net sales were \$47.0 million, down 43%. U.S. segment net sales were down 47%, and international segment net sales were down 34%.
- Net loss per basic and diluted share was \$0.23, compared to a net loss per basic and diluted share of \$0.05 a year ago.
- Cash and cash equivalents were \$199.2 million as of June 30, 2014, up 10% compared to \$181.4 million as of June 30, 2013.

"Our business so far this year has been significantly hindered by retail inventory carry-forward from Holiday 2013, tough conditions in most of our key markets and the planned later launch of our major new product introductions for the year. While these difficulties have caused our financial performance to decline

1 substantially during our seasonally slow quarters, we are making good progress  
2 on our growth initiatives, which should position us well for a strong holiday  
3 season, expansion into new major entertainment categories and profitable long-  
4 term growth,” said John Barbour, Chief Executive Officer.

5 “This year we are launching two exciting new lines of products in brand-new  
6 entertainment categories for us that encourage active play and that will expand  
7 and further diversify our business. Childhood obesity has more than doubled over  
8 the last 30 years. Our mission at LeapFrog is to help children achieve their  
9 potential, and to this end, many children desperately need help and  
10 encouragement to get more active. Hitting store shelves this month is LeapBand,  
11 which was inspired by the Let’s Move initiative by First Lady Michelle Obama.  
12 LeapBand is the first wearable activity tracker created for children that  
13 encourages active play and healthy habits while nurturing a personalized virtual  
14 pet. LeapBand will be launched on September 6th with a major PR event in Los  
15 Angeles featuring Mia Hamm, the international soccer star and mother of three  
16 young children, as spokesperson. In October, we will launch LeapTV, an  
17 innovative educational, active video game console system for younger children  
18 that by year-end will offer more than 100 pieces of content, with games designed  
19 to get kids’ minds and bodies moving.

20 “We recently hosted our annual product showcase in New York City to  
21 demonstrate these lines for retail partners, the media, investors and other industry  
22 experts. We are very excited by the feedback we received and believe that  
23 LeapTV will be featured on many retailer and media Top Toy lists this holiday  
24 season. There is significant excitement for these innovative new products that are  
25 in high-growth entertainment categories currently not being addressed for  
26 younger children. The LeapBand and LeapTV lines are great examples of  
27 LeapFrog’s unique ability to create engaging educational entertainment  
28 experiences that help children achieve their potential.

“In addition, this summer we are launching two new versions of our top-selling  
LeapPad children’s tablets, the LeapPad3 and LeapPad Ultra XDi. We will also  
add more than 370 new pieces of content this year to our unique multimedia  
library, where every game, app, video, book and music track has been developed  
or reviewed by our full-time in-house team of child development and educational  
experts. LeapFrog pioneered the children’s tablet market with the launch of the  
original LeapPad in 2011. Three years later, LeapPads are still the best first  
tablets for children and they continue to be the top-selling children’s tablet line in  
our major markets.

“We are also making significant strategic investments in creating additional new  
platforms and content, international expansion, online communities and  
information technology systems. We believe these investments will start to  
positively impact our bottom line next year and will position us well for long-term  
growth and continued leadership in educational entertainment.”

**Financial Overview for the First Fiscal Quarter Ended June 30, 2014  
Compared to the Quarter Ended June 30, 2013**

LeapFrog previously announced a fiscal year-end change from December 31 to March 31 in order to simplify business processes. As a result, the quarter ended June 30, 2014 is the first quarter of the new fiscal year ending March 31, 2015.

First fiscal quarter net sales were \$47.0 million, down 43% compared to \$83.0 million last year, and were not materially impacted by changes in currency exchange rates. In the U.S. segment, net sales were \$30.7 million, down 47% compared to \$58.4 million last year. In the International segment, net sales were \$16.3 million, down 34% compared to \$24.6 million last year, and were not materially impacted by changes in currency exchange rates.

Net sales for the first fiscal quarter were negatively impacted by high inventory levels at retail entering the fiscal year that were carried over from the 2013 holiday season, which drove retailers to discount products, cut replenishment orders and required higher trade allowances, partially offset by the calendar shift of Easter. Net sales also faced an exceptionally tough sales comparison from last year's exceptional June quarter sales performance, which was driven by new product introductions that will not occur until the September and December quarters of this year. In addition, net sales in the prior year were driven by high post-season demand for our LeapPad tablets and content in Spring 2013, following an exceptional Holiday 2012 performance when our tablets held three of the top 10 selling toy slots in the U.S. and our Explorer assortment of content was the No. 1 selling toy in the U.S. according to NPD1.

Loss from operations for the first fiscal quarter was \$25.7 million, compared to a loss from operations of \$4.1 million last year.

Net loss for the first fiscal quarter was \$16.4 million, compared to a net loss of \$3.3 million last year. Net loss per basic and diluted share was \$0.23, compared to a net loss per basic and diluted share of \$0.05 last year.

Adjusted EBITDA (non-GAAP) for the first fiscal quarter was a loss of \$16.2 million, compared to a gain of \$3.4 million last year.

"We expected a decline in our financial performance year-over-year given higher levels of retail carryover inventory from Holiday 2013, the comparative timing of new product launches and a difficult comparison to the prior year," said Ray Arthur, Chief Financial Officer. "However, the decline in net sales and gross margin was slightly more than expected as we helped retail partners discount our products to reduce retail inventory levels. Given our ability to reduce operating expenses, our net loss for the quarter was about what we expected despite the net sales and gross margin declines."

## Guidance

“We expect our financial results to decline year-over-year in the September quarter due to remaining elevated retail inventory levels, continued challenging POS trends and the comparative timing of new product launches. In addition, our sales projections have declined with the deferral of our consumer electronics tablet until next year to allow us to focus on the launch of our major new platform introduction – LeapTV. However, we expect solid net sales growth in both the December and March quarters, led largely by sales of new releases including LeapTV, LeapBand, LeapPad3, LeapPad Ultra XDi and related content,” continued Mr. Arthur.

“We are lowering our outlook for the year given our June quarter performance, POS trends, and a very back-end loaded year with LeapTV shipping at the end of September.

“Previously, we provided guidance for the full calendar year. We are now providing full fiscal year guidance for the 12-month period ending March 31, 2015 to align with our new fiscal year end that we announced in May. We expect full fiscal year net sales to decline moderately year-over-year due to the issues we’ve already discussed ... elevated beginning retail inventory levels, a challenging market environment and POS trends as well as the timing of new product shipments. Partially offsetting these challenges will be the introduction of new products that we expect to perform very well in the market place in fiscal 2015 and beyond. We believe LeapTV will be a big hit when it launches, but it won’t start shipping until the end of September, limiting the upside for this year but positioning us nicely for next year. For the fiscal year, we expect our net income per share to decline year-over-year due to the net sales decline and our long-term investments in the business to drive future growth. These long-term investments are being made in new platforms and content, international expansion, online communities and information systems, and we expect to benefit from these investments starting in the next fiscal year.”

For the full fiscal year ending March 31, 2015, we expect:

- Net sales to be in the range of \$480 million to \$505 million compared to \$528 million for the 12-month period ended March 31, 2014.
- Net income (loss) per basic and diluted share to be in the range of a loss per share of \$0.04 to an income per share of \$0.10. For the 12-month period ended March 31, 2014, net income per diluted share (GAAP) was \$1.07 and normalized net income per diluted share<sup>2</sup> (non-GAAP) was \$0.18. We are providing normalized net income (loss)<sup>2</sup> measures, which are non-GAAP measures, to help investors review our performance and performance trends excluding discrete tax items which have historically been significant.

- Capital expenditures to be in the range of \$30 million to \$40 million as we make long-term, strategic investments in our business, particularly in our information technology systems. Capital expenditures include purchases of property and equipment and capitalization of product costs.

For the second fiscal quarter ending September 30, 2014, we expect:

- Net sales to be in the range of \$125 million to \$130 million.
- Net income (loss) per diluted share to be in the range of a loss per share of \$0.03 to an income per share of \$0.01.

21. On this news, shares of LeapFrog declined \$1.38 per share, 18.67%, on August 5, 2014, to close at \$6.01 per share, on unusually heavy volume.

22. On August 6, 2014, LeapFrog filed its Quarterly Report with the SEC on Form 10-Q for the 2015 fiscal first quarter. The Company's Form 10-Q was signed by Defendants Barbour and Arthur, and reaffirmed the Company's statements previously announced on August 4, 2014.

23. The statements contained in ¶¶20, 22 were materially false and/or misleading when made because defendants failed to disclose or indicate the following: (1) that the Company was experiencing a decline in consumer demand; (2) that the Company's new LeapTV video game system launch and shipment was delayed by developmental issues; (3) that retailers were overstocked with the Company's LeapPad products; (4) that, as a result, the Company lacked a reasonable basis for its financial guidance; and (5) that, as a result of the foregoing, the Company's statements were materially false and misleading at all relevant times.

24. On November 3, 2014, LeapFrog issued a press release entitled, "LeapFrog Reports Second Quarter Fiscal Year 2015 Financial Results." Therein, the Company, in relevant part, stated:

**Net Sales in the September Quarter Declined Year-Over-Year Expects Net Sales Growth Year-Over-Year in the December Quarter with the Launch of LeapTV**

LeapFrog Enterprises, Inc. (NYSE:LF) today announced financial results for the second fiscal quarter ended September 30, 2014. In May, LeapFrog announced a fiscal year-end change from December 31 to March 31 in order to simplify business planning and processes. As a result, the quarter ended September 30, 2014 was the second quarter of the new fiscal year ending March 31, 2015.

Highlights of financial results for the quarter ended September 30, 2014 compared to the quarter ended September 30, 2013:

- Consolidated net sales were \$113.6 million, down 43%. U.S. segment net sales were down 47%, and international segment net sales were down 33%.
- Net loss per basic and diluted share was \$0.03, compared to net income per diluted share of \$0.37 a year ago.
- Cash and cash equivalents were \$111.3 million as of September 30, 2014, up 42% compared to \$78.4 million as of September 30, 2013.

“Our business year-to-date has been negatively impacted by the significant retail inventory carry-over of tablets from Holiday 2013, the planned later launch of our major new products compared to last year, many of our retail partners around the world running far tighter inventories this year and retail sales softness in some of our key product categories,” said John Barbour, Chief Executive Officer. “In addition, our fiscal second quarter net sales were hampered with the slippage of first shipments of LeapTV into the fiscal third quarter, which is the primary reason our fiscal second quarter net sales results were below our guidance range.

“Despite these challenges, we believe we are well-positioned for the all-important holiday season with our biggest ever line of fun educational content, filled with lots of new games, books and videos; the exciting launch of our innovative new active educational video game system, LeapTV; two new feature-filled tablets in our LeapPad line, which continues to be the #1 best-selling line of children’s tablets in our major markets based on unit sales; and a strong line-up of learning toys and interactive reading platforms.

“In October, we began shipping LeapTV and early retail sales and reviews have been very encouraging. With limited distribution, LeapTV has already hit the Top 25 selling list this week in one major retailer, and it has been named on many retailer, media and industry top toy lists for this holiday. We are very excited about the platform’s potential to diversify and expand our business into a sizeable new entertainment category.



1 “Additionally, an important part of Fiscal 2015 is the significant strategic  
2 investments we are making into building operational foundations that will support  
3 our growth plans into the future. In addition to implementing a new company-  
4 wide ERP system, we are investing in developing new platforms and content,  
5 international expansion and building online communities. We believe these  
6 investments will position us for long-term growth and continued leadership in  
7 educational entertainment.”

8 **Financial Overview for the Second Fiscal Quarter Ended September 30, 2014**  
9 **Compared to the Quarter Ended September 30, 2013**

10 LeapFrog previously announced a fiscal year-end change from December 31 to  
11 March 31 in order to simplify business planning and processes. As a result, the  
12 quarter ended September 30, 2014 was the second quarter of the new fiscal year  
13 ending March 31, 2015.

14 Second fiscal quarter net sales were \$113.6 million, down 43% compared to  
15 \$201.0 million last year, and were not materially impacted by changes in currency  
16 exchange rates. In the U.S. segment, net sales were \$77.6 million, down 47%  
17 compared to \$146.8 million last year. In the International segment, net sales were  
18 \$36.1 million, down 33% compared to \$54.2 million last year, and were not  
19 materially impacted by changes in currency exchange rates.

20 Net sales for the quarter were negatively impacted by higher-than-desired  
21 inventory levels of tablets at retail entering the year which reduced retailer  
22 replenishment orders, the planned later timing of new product launches compared  
23 to the prior year, many of our retail partners around the world running far tighter  
24 inventories this year, retail sales softness in some of our key product categories  
25 and the first shipments of LeapTV slipping into the fiscal third quarter.

26 Loss from operations for the second fiscal quarter was \$3.1 million, compared to  
27 income from operations of \$42.9 million last year.

28 Net loss for the second fiscal quarter was \$2.0 million, compared to net income of  
\$26.4 million last year. Net loss per basic and diluted share was \$0.03, compared  
to net income per diluted share of \$0.37 last year.

Adjusted EBITDA (non-GAAP) for the second fiscal quarter was \$6.3 million,  
compared to \$50.9 million last year.

“We expected a decline in our financial performance year-over-year given higher  
levels of retail carry-over inventory from Holiday 2013 and the comparative  
timing of new product launches,” said Ray Arthur, Chief Financial Officer.  
“However, the decline in net sales was more than anticipated primarily due to the  
slippage of first shipments of LeapTV into the fiscal third quarter. Given our

1 reduced operating expenses versus plan, our net loss for the quarter was in-line  
2 with our expectations despite the net sales decline.”

### 3 **Guidance**

4 “We expect our financial results in our fiscal third quarter ending December 31,  
5 2014 to improve year-over-year given the launch of LeapTV, two new LeapPad  
6 tablets, a strong line-up of learning toys and interactive reading platforms and an  
7 exceptional educational content offering. However, we also expect our business to  
8 continue to be impacted by residual Holiday 2013 carry-forward retail inventory  
9 of LeapPads. Additionally, many of our retail partners around the world are  
10 running far tighter inventories this year, and we are experiencing retail sales  
11 softness in some of our key product categories. As a result, we are lowering our  
12 outlook for the fiscal year,” continued Mr. Arthur.

13 For the full fiscal year ending March 31, 2015, we expect:

- 14 • Net sales to be in the range of \$450 million to \$470 million compared to  
15 \$528 million for the twelve-month period ended March 31, 2014.
- 16 • Net loss per basic and diluted share to be in the range of \$0.13 to \$0.25,  
17 assuming an effective 37.5% tax rate. For the twelve-month period ended  
18 March 31, 2014, net income per diluted share (GAAP) was \$1.07 and  
19 normalized net income per diluted share<sup>[2]</sup> (non-GAAP) was \$0.18. We  
20 are providing normalized net income (loss)<sup>2</sup> measures, which are non-  
21 GAAP measures, to help investors review our performance and  
22 performance trends excluding discrete tax items which have historically  
23 been significant.
- 24 • Capital expenditures to be in the range of \$35 million to \$45 million as we  
25 make long-term, strategic investments in our business, particularly in our  
26 information technology systems. Capital expenditures include purchases  
27 of property and equipment and capitalization of product costs.

28 For the third fiscal quarter ending December 31, 2014, we expect:

- Net sales to be in the range of \$220 million to \$240 million, up 18% to  
28%, compared to \$187 million for the quarter ended December 31, 2013.
- Net income per diluted share to be in the range of \$0.16 to \$0.28,  
assuming an effective 37.5% tax rate. For the quarter ended December 31,  
2013, net income per diluted share (GAAP) was \$0.90 and normalized net  
income per diluted share<sup>2</sup> (non-GAAP) was \$0.00. We are providing  
normalized net income measures, which are non-GAAP measures, to help  
investors review our performance and performance trends excluding  
discrete tax items which have historically been significant.



25. On this news, shares of LeapFrog declined \$0.42 per share, 7.73%, on November 4, 2014, to close at \$5.01 per share, on unusually heavy volume.

26. On November 10, 2014, LeapFrog filed its Quarterly Report with the SEC on Form 10-Q for the 2014 fiscal second quarter. The Company's Form 10-Q was signed by Defendants Barbour and Arthur, and reaffirmed the Company's statements previously announced on November 3, 2014.

27. The statements contained in ¶¶24, 26 were materially false and/or misleading when made because defendants failed to disclose or indicate the following: (1) that the Company was experiencing a decline in consumer demand; (2) that the Company's new LeapTV video game system launch and shipment was delayed by developmental issues; (3) that retailers were overstocked with the Company's LeapPad products; (4) that, as a result, the Company lacked a reasonable basis for its financial guidance; and (5) that, as a result of the foregoing, the Company's statements were materially false and misleading at all relevant times.

#### **Disclosures at the End of the Class Period**

28. On January 22, 2015, LeapFrog issued a press release entitled, "LeapFrog Provides Preliminary Unaudited Fiscal Third Quarter Results." Therein, the Company, in relevant part, stated:

LeapFrog Enterprises, Inc. (NYSE: LF) today provided preliminary unaudited fiscal third quarter results for the three-month period ended December 31, 2014. The company's fiscal year covers the twelve-month period ending March 31, 2015.

"We are very disappointed that our performance in the third quarter was significantly below our expectations and that we will not achieve our fiscal year guidance," said John Barbour, Chief Executive Officer.

"The sales shortfall was mainly due to the following factors:

- 1 • In our major territories, holiday sales of children's tablets across the toy  
2 and electronics segments declined more than expected. This fall in  
3 consumer demand resulted in lower than planned LeapPad shipments in  
4 the quarter.
- 5 • Due to development issues, we shipped and promoted our new LeapTV  
6 educational video game system later than planned. This delay along with  
7 communication challenges and inconsistent execution at retail resulted in  
8 us significantly missing our sales expectations on this innovative new  
9 platform.
- 10 • The lower consumer sales of LeapPad and LeapTV hardware resulted in  
11 less demand for cartridges, accessories and digital content.
- 12 • Our LeapReader learn-to-read system sales were also lower than expected  
13 over the quarter, partly due to the significant drop in the retail prices of  
14 children's tablets.
- 15 • In addition to the primary drivers above, retail in-stocks of our new tablets  
16 were hampered by tighter inventory management and open-to-buy  
17 challenges across a number of our retailer partners and the West Coast  
18 port slowdown in the US.

19 "Despite these sales declines, the children's tablet business remains a sizeable  
20 business around the world, and we believe based on market data that LeapPad  
21 tablets continued to be the #1 selling kids' tablets in the US based on units. In  
22 addition, our LeapPad tablets were also the overall #1 selling toy in the UK for  
23 the year according to NPD1. LeapTV has also won a wide variety of independent  
24 awards and has been getting good online consumer reviews.

25 "In light of our significant sales decline and losses, we are thoroughly reviewing  
26 our product strategies, operations and cost structure in order to improve our  
27 financial performance. For the last 20 years, LeapFrog has gained substantial  
28 expertise in developing educational entertainment products for children. We have  
a strong brand that parents trust and a rich history of innovation and education.  
We are confident we can leverage these core assets to continue to deliver  
exceptional educational products and to return the company to growth."

"Our results for the third quarter will be significantly impacted by the non-cash  
write-down of goodwill and deferred tax assets of approximately \$107 million,"  
said Ray Arthur, Chief Financial Officer.

"We expect our net sales to decline in the fourth quarter," continued Mr. Arthur.  
"However, we cannot provide a sales estimate at this time as we continue to  
evaluate our retail inventory levels coming out of the holidays. We are, therefore,  
withdrawing our prior guidance for the current fiscal year ending March 31, 2015.  
We expect to provide guidance for the new fiscal year ending March 31, 2016,  
when we report our financial results for the fourth quarter ending March 31,  
2015."

For our fiscal third quarter ended December 31, 2014, our preliminary unaudited results are:

- Net sales will be approximately \$145 million compared with prior guidance of \$220 million to \$240 million.
- Net loss will be approximately \$124 million, which includes non-cash charges of approximately \$20 million for goodwill impairment and approximately \$87 million for deferred tax asset valuation allowance.
- Net loss per basic and diluted share will be approximately \$1.77, which includes approximately \$0.28 per share related to goodwill impairment and approximately \$1.24 per share related to deferred tax asset valuation allowance. This compares to prior guidance of net income per diluted share to be in the range of \$0.16 to \$0.28, assuming an effective 37.5% tax rate.
- Cash and cash equivalents will be approximately \$94 million, accounts receivables will be approximately \$101 million and inventories will be approximately \$78 million. The company had no short-term or long-term debt outstanding as of December 31, 2014.

29. On this news, shares of LeapFrog declined \$1.35 per share, 34.62%, to close on January 23, 2015, at \$2.55 per share, on unusually heavy volume.

### **CLASS ACTION ALLEGATIONS**

30. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class, consisting of all those who purchased or otherwise acquired LeapFrog's securities between May 5, 2014 and January 22, 2015, inclusive and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

31. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, LeapFrog's securities were actively traded on the Nasdaq Stock Market ("NASDAQ"). While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes

1 that there are hundreds or thousands of members in the proposed Class. Millions of LeapFrog  
2 shares were traded publicly during the Class Period on the NASDAQ. As of October 31, 2014,  
3 LeapFrog had 65,766,486 shares of common stock outstanding. Record owners and other  
4 members of the Class may be identified from records maintained by LeapFrog or its transfer  
5 agent and may be notified of the pendency of this action by mail, using the form of notice similar  
6 to that customarily used in securities class actions.

7  
8 32. Plaintiff's claims are typical of the claims of the members of the Class as all  
9 members of the Class are similarly affected by Defendants' wrongful conduct in violation of  
10 federal law that is complained of herein.

11 33. Plaintiff will fairly and adequately protect the interests of the members of the  
12 Class and has retained counsel competent and experienced in class and securities litigation.

13 34. Common questions of law and fact exist as to all members of the Class and  
14 predominate over any questions solely affecting individual members of the Class. Among the  
15 questions of law and fact common to the Class are:

16  
17 (a) whether the federal securities laws were violated by Defendants' acts as  
18 alleged herein;

19 (b) whether statements made by Defendants to the investing public during the  
20 Class Period omitted and/or misrepresented material facts about the business, operations, and  
21 prospects of LeapFrog; and

22 (c) to what extent the members of the Class have sustained damages and the  
23 proper measure of damages.

24 35. A class action is superior to all other available methods for the fair and efficient  
25 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as  
26  
27  
28

1 the damages suffered by individual Class members may be relatively small, the expense and  
2 burden of individual litigation makes it impossible for members of the Class to individually  
3 redress the wrongs done to them. There will be no difficulty in the management of this action as  
4 a class action.

5  
6 **UNDISCLOSED ADVERSE FACTS**

7 36. The market for LeapFrog's securities was open, well-developed and efficient at  
8 all relevant times. As a result of these materially false and/or misleading statements, and/or  
9 failures to disclose, LeapFrog's securities traded at artificially inflated prices during the Class  
10 Period. Plaintiff and other members of the Class purchased or otherwise acquired LeapFrog's  
11 securities relying upon the integrity of the market price of the Company's securities and market  
12 information relating to LeapFrog, and have been damaged thereby.

13  
14 37. During the Class Period, Defendants materially misled the investing public,  
15 thereby inflating the price of LeapFrog's securities, by publicly issuing false and/or misleading  
16 statements and/or omitting to disclose material facts necessary to make Defendants' statements,  
17 as set forth herein, not false and/or misleading. Said statements and omissions were materially  
18 false and/or misleading in that they failed to disclose material adverse information and/or  
19 misrepresented the truth about LeapFrog's business, operations, and prospects as alleged herein.

20  
21 38. At all relevant times, the material misrepresentations and omissions particularized  
22 in this Complaint directly or proximately caused or were a substantial contributing cause of the  
23 damages sustained by Plaintiff and other members of the Class. As described herein, during the  
24 Class Period, Defendants made or caused to be made a series of materially false and/or  
25 misleading statements about LeapFrog's financial well-being and prospects. These material  
26 misstatements and/or omissions had the cause and effect of creating in the market an  
27  
28

1 unrealistically positive assessment of the Company and its financial well-being and prospects,  
2 thus causing the Company's securities to be overvalued and artificially inflated at all relevant  
3 times. Defendants' materially false and/or misleading statements during the Class Period  
4 resulted in Plaintiff and other members of the Class purchasing the Company's securities at  
5 artificially inflated prices, thus causing the damages complained of herein.

### 6 **LOSS CAUSATION**

7  
8 39. Defendants' wrongful conduct, as alleged herein, directly and proximately caused  
9 the economic loss suffered by Plaintiff and the Class.

10 40. During the Class Period, Plaintiff and the Class purchased LeapFrog's securities  
11 at artificially inflated prices and were damaged thereby. The price of the Company's securities  
12 significantly declined when the misrepresentations made to the market, and/or the information  
13 alleged herein to have been concealed from the market, and/or the effects thereof, were revealed,  
14 causing investors' losses.

### 15 **SCIENTER ALLEGATIONS**

16  
17 41. As alleged herein, Defendants acted with scienter in that Defendants knew that  
18 the public documents and statements issued or disseminated in the name of the Company were  
19 materially false and/or misleading; knew that such statements or documents would be issued or  
20 disseminated to the investing public; and knowingly and substantially participated or acquiesced  
21 in the issuance or dissemination of such statements or documents as primary violations of the  
22 federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their  
23 receipt of information reflecting the true facts regarding LeapFrog, his/her control over, and/or  
24 receipt and/or modification of LeapFrog's allegedly materially misleading misstatements and/or  
25  
26  
27  
28

1 their associations with the Company which made them privy to confidential proprietary  
2 information concerning LeapFrog, participated in the fraudulent scheme alleged herein.

3 **APPLICABILITY OF PRESUMPTION OF RELIANCE**  
4 **(FRAUD-ON-THE-MARKET DOCTRINE)**

5 42. The market for LeapFrog's securities was open, well-developed and efficient at  
6 all relevant times. As a result of the materially false and/or misleading statements and/or failures  
7 to disclose, LeapFrog's securities traded at artificially inflated prices during the Class Period.  
8 On July 21, 2014, the Company's stock closed at a Class Period high of \$7.74 per share.  
9 Plaintiff and other members of the Class purchased or otherwise acquired the Company's  
10 securities relying upon the integrity of the market price of LeapFrog's securities and market  
11 information relating to LeapFrog, and have been damaged thereby.  
12

13 43. During the Class Period, the artificial inflation of LeapFrog's stock was caused by  
14 the material misrepresentations and/or omissions particularized in this Complaint causing the  
15 damages sustained by Plaintiff and other members of the Class. As described herein, during the  
16 Class Period, Defendants made or caused to be made a series of materially false and/or  
17 misleading statements about LeapFrog's business, prospects, and operations. These material  
18 misstatements and/or omissions created an unrealistically positive assessment of LeapFrog and  
19 its business, operations, and prospects, thus causing the price of the Company's securities to be  
20 artificially inflated at all relevant times, and when disclosed, negatively affected the value of the  
21 Company stock. Defendants' materially false and/or misleading statements during the Class  
22 Period resulted in Plaintiff and other members of the Class purchasing the Company's securities  
23 at such artificially inflated prices, and each of them has been damaged as a result.  
24  
25

26 44. At all relevant times, the market for LeapFrog's securities was an efficient market  
27 for the following reasons, among others:  
28

1 (a) LeapFrog stock met the requirements for listing, and was listed and  
2 actively traded on the NASDAQ, a highly efficient and automated market;

3 (b) as a regulated issuer, LeapFrog filed periodic public reports with the SEC  
4 and/or the NASDAQ;

5 (c) LeapFrog regularly communicated with public investors *via* established  
6 market communication mechanisms, including through regular dissemination of press releases  
7 on the national circuits of major newswire services and through other wide-ranging public  
8 disclosures, such as communications with the financial press and other similar reporting services;  
9 and/or  
10

11 (d) LeapFrog was followed by securities analysts employed by brokerage  
12 firms who wrote reports about the Company, and these reports were distributed to the sales force  
13 and certain customers of their respective brokerage firms. Each of these reports was publicly  
14 available and entered the public marketplace.  
15

16 45. As a result of the foregoing, the market for LeapFrog's securities promptly  
17 digested current information regarding LeapFrog from all publicly available sources and  
18 reflected such information in LeapFrog's stock price. Under these circumstances, all purchasers  
19 of LeapFrog's securities during the Class Period suffered similar injury through their purchase of  
20 LeapFrog's securities at artificially inflated prices and a presumption of reliance applies.  
21

22 **NO SAFE HARBOR**

23 46. The statutory safe harbor provided for forward-looking statements under certain  
24 circumstances does not apply to any of the allegedly false statements pleaded in this Complaint.  
25 The statements alleged to be false and misleading herein all relate to then-existing facts and  
26 conditions. In addition, to the extent certain of the statements alleged to be false may be  
27  
28



1 characterized as forward looking, they were not identified as “forward-looking statements” when  
 2 made and there were no meaningful cautionary statements identifying important factors that  
 3 could cause actual results to differ materially from those in the purportedly forward-looking  
 4 statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to  
 5 any forward-looking statements pleaded herein, Defendants are liable for those false forward-  
 6 looking statements because at the time each of those forward-looking statements was made, the  
 7 speaker had actual knowledge that the forward-looking statement was materially false or  
 8 misleading, and/or the forward-looking statement was authorized or approved by an executive  
 9 officer of LeapFrog who knew that the statement was false when made.  
 10

11  
 12 **FIRST CLAIM**  
 13 **Violation of Section 10(b) of**  
 14 **The Exchange Act and Rule 10b-5**  
 15 **Promulgated Thereunder Against All Defendants**

16 47. Plaintiff repeats and realleges each and every allegation contained above as if  
 17 fully set forth herein.

18 48. During the Class Period, Defendants carried out a plan, scheme and course of  
 19 conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing  
 20 public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and  
 21 other members of the Class to purchase LeapFrog’s securities at artificially inflated prices. In  
 22 furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them,  
 23 took the actions set forth herein.

24 49. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made  
 25 untrue statements of material fact and/or omitted to state material facts necessary to make the  
 26 statements not misleading; and (iii) engaged in acts, practices, and a course of business which  
 27 operated as a fraud and deceit upon the purchasers of the Company’s securities in an effort to  
 28

1 maintain artificially high market prices for LeapFrog's securities in violation of Section 10(b) of  
2 the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the  
3 wrongful and illegal conduct charged herein or as controlling persons as alleged below.

4 50. Defendants, individually and in concert, directly and indirectly, by the use, means  
5 or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a  
6 continuous course of conduct to conceal adverse material information about LeapFrog's financial  
7 well-being and prospects, as specified herein.  
8

9 51. These defendants employed devices, schemes and artifices to defraud, while in  
10 possession of material adverse non-public information and engaged in acts, practices, and a  
11 course of conduct as alleged herein in an effort to assure investors of LeapFrog's value and  
12 performance and continued substantial growth, which included the making of, or the  
13 participation in the making of, untrue statements of material facts and/or omitting to state  
14 material facts necessary in order to make the statements made about LeapFrog and its business  
15 operations and future prospects in light of the circumstances under which they were made, not  
16 misleading, as set forth more particularly herein, and engaged in transactions, practices and a  
17 course of business which operated as a fraud and deceit upon the purchasers of the Company's  
18 securities during the Class Period.  
19  
20

21 52. Each of the Individual Defendants' primary liability, and controlling person  
22 liability, arises from the following facts: (i) the Individual Defendants were high-level executives  
23 and/or directors at the Company during the Class Period and members of the Company's  
24 management team or had control thereof; (ii) each of these defendants, by virtue of their  
25 responsibilities and activities as a senior officer and/or director of the Company, was privy to and  
26 participated in the creation, development and reporting of the Company's internal budgets, plans,  
27  
28

1 projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and  
2 familiarity with the other defendants and was advised of, and had access to, other members of the  
3 Company's management team, internal reports and other data and information about the  
4 Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants  
5 was aware of the Company's dissemination of information to the investing public which they  
6 knew and/or recklessly disregarded was materially false and misleading.  
7

8         53. The defendants had actual knowledge of the misrepresentations and/or omissions  
9 of material facts set forth herein, or acted with reckless disregard for the truth in that they failed  
10 to ascertain and to disclose such facts, even though such facts were available to them. Such  
11 defendants' material misrepresentations and/or omissions were done knowingly or recklessly and  
12 for the purpose and effect of concealing LeapFrog's financial well-being and prospects from the  
13 investing public and supporting the artificially inflated price of its securities. As demonstrated  
14 by Defendants' overstatements and/or misstatements of the Company's business, operations,  
15 financial well-being, and prospects throughout the Class Period, Defendants, if they did not have  
16 actual knowledge of the misrepresentations and/or omissions alleged, were reckless in failing to  
17 obtain such knowledge by deliberately refraining from taking those steps necessary to discover  
18 whether those statements were false or misleading.  
19  
20

21         54. As a result of the dissemination of the materially false and/or misleading  
22 information and/or failure to disclose material facts, as set forth above, the market price of  
23 LeapFrog's securities was artificially inflated during the Class Period. In ignorance of the fact  
24 that market prices of the Company's securities were artificially inflated, and relying directly or  
25 indirectly on the false and misleading statements made by Defendants, or upon the integrity of  
26 the market in which the securities trades, and/or in the absence of material adverse information  
27  
28

1 that was known to or recklessly disregarded by Defendants, but not disclosed in public  
2 statements by Defendants during the Class Period, Plaintiff and the other members of the Class  
3 acquired LeapFrog's securities during the Class Period at artificially high prices and were  
4 damaged thereby.

5 55. At the time of said misrepresentations and/or omissions, Plaintiff and other  
6 members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff  
7 and the other members of the Class and the marketplace known the truth regarding the problems  
8 that LeapFrog was experiencing, which were not disclosed by Defendants, Plaintiff and other  
9 members of the Class would not have purchased or otherwise acquired their LeapFrog securities,  
10 or, if they had acquired such securities during the Class Period, they would not have done so at  
11 the artificially inflated prices which they paid.  
12

13 56. By virtue of the foregoing, Defendants have violated Section 10(b) of the  
14 Exchange Act and Rule 10b-5 promulgated thereunder.  
15

16 57. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and  
17 the other members of the Class suffered damages in connection with their respective purchases  
18 and sales of the Company's securities during the Class Period.  
19

20 **SECOND CLAIM**  
21 **Violation of Section 20(a) of**  
22 **The Exchange Act Against the Individual Defendants**

23 58. Plaintiff repeats and realleges each and every allegation contained above as if  
24 fully set forth herein.

25 59. The Individual Defendants acted as controlling persons of LeapFrog within the  
26 meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level  
27 positions, and their ownership and contractual rights, participation in and/or awareness of the  
28 Company's operations and/or intimate knowledge of the false financial statements filed by the

1 Company with the SEC and disseminated to the investing public, the Individual Defendants had  
2 the power to influence and control and did influence and control, directly or indirectly, the  
3 decision-making of the Company, including the content and dissemination of the various  
4 statements which Plaintiff contends are false and misleading. The Individual Defendants were  
5 provided with or had unlimited access to copies of the Company's reports, press releases, public  
6 filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after  
7 these statements were issued and had the ability to prevent the issuance of the statements or  
8 cause the statements to be corrected.  
9

10 60. In particular, each of these Defendants had direct and supervisory involvement in  
11 the day-to-day operations of the Company and, therefore, is presumed to have had the power to  
12 control or influence the particular transactions giving rise to the securities violations as alleged  
13 herein, and exercised the same.  
14

15 61. As set forth above, LeapFrog and the Individual Defendants each violated Section  
16 10(b) and Rule 10b-5 by their acts and/or omissions as alleged in this Complaint. By virtue of  
17 their positions as controlling persons, the Individual Defendants are liable pursuant to Section  
18 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct,  
19 Plaintiff and other members of the Class suffered damages in connection with their purchases of  
20 the Company's securities during the Class Period.  
21

22 **PRAYER FOR RELIEF**

23 WHEREFORE, Plaintiff prays for relief and judgment, as follows:  
24

25 (a) determining that this action is a proper class action under Rule 23 of the Federal  
26 Rules of Civil Procedure;  
27  
28

1 (b) awarding compensatory damages in favor of Plaintiff and the other Class  
2 members against all defendants, jointly and severally, for all damages sustained as a result of  
3 Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

4 (c) awarding Plaintiff and the Class their reasonable costs and expenses incurred in  
5 this action, including counsel fees and expert fees; and

6 (d) such other and further relief as the Court may deem just and proper.  
7

8 **JURY TRIAL DEMANDED**

9 Plaintiff hereby demands a trial by jury.

10 Dated: January 23, 2015

**GLANCY BINKOW & GOLDBERG LLP**

11  
12 By: s/Robert V. Prongay

13 Lionel Z. Glancy

14 Robert V. Prongay

Casey E. Sadler

15 1925 Century Park East, Suite 2100

Los Angeles, CA 90067

16 Telephone: (310) 201-9150

17 Facsimile: (310) 201-9160

18 *Attorneys for Plaintiff Abere Newett*  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**SWORN CERTIFICATION OF PLAINTIFF  
LEAPFROG ENTERPRISES, INC. SECURITIES LITIGATION**

I, Abere Newett, certify that:

1. I have reviewed the Complaint and authorized its filing.
2. I did not purchase Leapfrog Enterprises, Inc., the security that is the subject of this action, at the direction of plaintiff's counsel or in order to participate in any private action arising under this title.
3. I am willing to serve as a representative party on behalf of a class and will testify at deposition and trial, if necessary.
4. My transactions in Leapfrog Enterprises, Inc. during the Class Period set forth in the Complaint are attached.
5. I have not served as a representative party on behalf of a class under this title during the last three years, except for the following: \_\_\_\_\_
6. I will not accept any payment for serving as a representative party, except to receive my pro rata share of any recovery or as ordered or approved by the court, including the award to a representative plaintiff of reasonable costs and expenses (including lost wages) directly relating to the representation of the class.

I declare under penalty of perjury that the foregoing are true and correct statements.

Dated: 1/23/2015

DocuSigned by:

Abere Newett

94EDDBE94960

**RETURN THIS FORM TO:** Glancy Binkow & Goldberg LLP, 1925 Century Park East, Suite 2100, Los Angeles, CA 90067  
Tel: 310-201-9150; [shareholders@glancylaw.com](mailto:shareholders@glancylaw.com)

**Abere Newett's Transactions in  
Leapfrog Enterprises, Inc (LF)**

<b>Date</b>	<b>Transaction Type</b>	<b>Shares</b>	<b>Unit Price</b>
11/19/2014	Bought	2,500	\$5.31
11/19/2014	Bought	2,500	\$5.30
12/5/2014	Bought	2,500	\$4.99
12/12/2014	Bought	2,500	\$4.68